



## Mayor's Budget Message

Dear Fellow Citizens of Springfield:

As you know, for some time now Springfield has faced a number of financial challenges. This office has had to make some very tough decisions and negotiate through some very difficult situations. We have tried to confront our problems realistically and decisively. I thank all of you who have helped. I have particular respect and admiration for our city workers. In the face of great uncertainty and economic distress, they have maintained the highest standards of professionalism, accountability, and dedication.

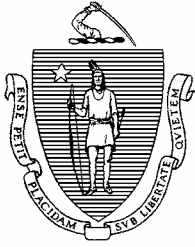
I am also indebted to the Finance Control Board and to its staff for their part in helping to restore Springfield's fiscal stability. Their contributions are substantial and wide ranging. In my opinion, they want us to succeed.

I believe that Springfield has turned a corner. We still have a way to go, and some of our greatest challenges still lie ahead - but we are definitely heading in the right direction. There is a new ethic of integrity and hard work which is fundamental. We have made impressive strides toward greater fiscal prudence and accountability. Our city workers are striving to give us high quality services, despite budget cuts. Our teachers and school administrators remain committed to excellence. New and exciting projects are taking shape in the city, such as the expansion of Mass Mutual's home office. Several projects are near completion- witness the fantastic work on our civic center. Efforts to collect millions of dollars in delinquent property taxes are successful. The Springfield Police Department's partnership with the Massachusetts State Police has been an undeniable success. The second year of much needed re-paving of many city streets is already underway. We are seeing millions of dollars being committed for long needed repairs to our school buildings.

As evidence of our new fiscal progress, I am pleased to present you with the FY 2006 budget in a new form. For the first time, the citizens of Springfield will be able to see in print exactly how their money is being spent on municipal services.

It is my great honor and privilege to serve as your mayor. I cannot thank you enough for your expressions of faith, encouragement, and support during these trying times. All of us have a part in this effort. By working together, for the greater good, we are making the "City of Homes" a more secure, more robust and more attractive community.

*Charles V Ryan*



***The Commonwealth of Massachusetts***  
***Springfield Finance Control Board***  
436 Dwight Street  
Springfield, MA 01103

ALAN LeBOVIDGE  
CHAIRMAN

June 29, 2005

Dear Springfield Finance Control Board Members:

In July 2004 the Governor and the State Legislature established a Finance Control Board to oversee the operations of the City of Springfield. Its first meeting to address the financial problems of the City of Springfield took place in August 2004. At that time, the City's true financial picture began to be known to the Control Board and to the community at large. What was estimated in July 2004 to be a budget deficit of \$22 million for the fiscal year ending June 30, 2005 (FY05) was discovered, after the initial review of all of the City financial accounts, to be \$41 million. Over the past nine months of its operation the Control Board, working in close cooperation and partnership with the Mayor and his staff, has faced these problems squarely and undertaken action in two principal areas.

To understand the financial picture and challenges facing the City, it is important for the citizens to know that there is a financial crisis - due both to overspending and inadequate revenues - and an underlying managerial crisis. We not only have a problem of overspending and inadequate revenues, we have a problem of management, and in fact, they share a symbiotic relationship. You can control spending only when you have good management and management systems, and they have been sorely lacking.

Simply put, there were no citywide systems to manage information. Some of the information resources available to the Control Board are good. However, in other areas, the information has been so poor that it has been impossible to either benchmark behavior or to create goals and objectives. There was no accountability from an operational and executive standpoint and there were a host of other problems that prevented both the new Mayor and his staff from realizing their true cost. Moreover, the lack of information and the lack of management expertise prevented solutions from being proposed and actions from being taken to stop the overspending and appropriately increase revenues.

Since last August, the City and the Control Board have taken active steps to diminish the immediate cash or budget crunch for fiscal year 2005. Some of these steps you may have read about in the newspaper. While not always popular, they have been necessary, and do bear repeating at this time.

1. The employee wage freeze put in place by the City in FY 2003 and FY 2004 was continued into FY 2005.
2. Changes were made to the health insurance plan of City employees. The three steps involved in the health insurance change were:
  - a) Switching from one plan administrator to two after a competitive procurement.
  - b) Adopting Medicare B and Section 18.
  - c) Modifying the City's health plan.

These three steps have lowered the overall cost of health care to the taxpayers and to the employees by approximately \$23 million. Specific modifications to the plan included adjusting co-pays for doctor's visits for the first time in twenty years while increasing the co-insurance and deductibles to the plan. The employee contribution rate of 25% did not change, but these were substantial changes in the course of the municipal government operation. I can report to you that these two changes alone - the wage freeze and the health insurance changes - have added approximately \$16 - \$17 million in savings for fiscal years 2005 and 2006.

*Under Proposition 2½, the City has the ability to increase its aggregate tax levy by 2.5% each year plus any new growth, and it receives a similar amount of increased revenue in its local aid formula from the State as well. However, expenses in both wages and in health insurance have increased at a far more rapid rate. Notably, health insurance has increased at an average rate of 13 to 15% annually over the past several years. While the changes that we have discussed recently to the health care plan have had a significant impact, costs will still continue to grow at that rate. Labor and Management must jointly develop an approach that protects the health and well being of City employees and their families while limiting the growth in health care costs to our ability to raise revenues.*

In addition, a variety of steps have been taken to control day-to-day operating costs, ranging from reducing overtime budgets by departments, to implementing a hiring freeze, all the way down to reductions in office supply expenditures.

As of today, we estimate our FY 2005 budget deficit to be approximately \$22 million, including payroll. This is much less than the \$41 million projected in September 2004. While this is substantial progress, we clearly have far to go. This FY 2006 provisional budget, without the inclusion of any employee raises, projects a deficit of approximately \$6.5 million.

It is important for the public to know that as of December 1, 2004 the City did not have sufficient funds to pay its bills and the State made a loan to the City (under the authority of Chapter 169 of the Acts of 2004) that allows the City through the Finance Control Board, to obtain both short and long-term loans from a \$52 million State trust fund. Under Chapter 169, the City is obligated to repay anticipated borrowings from the trust fund starting in 2008. This loan is not an insignificant amount of money and it will affect the City's overall budget picture during those years.

Due to its existing deficit and lack of cash reserves, the City has a critical need for both short-term and long-term loans. Over the course of the FY 2005, the City borrowed on multiple occasions to cover its short-term expenses - predominately to meet payroll expenses. The City will be able to repay most, but not all of these short-term borrowings with tax revenue and State aid. At the end of FY 2005 the City will not have sufficient funds to repay approximately \$21 million and it will borrow that amount from the \$52 million trust fund leaving a balance of \$31 million. That is, the expenses of the City for FY 2005 will outstrip its resources by \$21 million, even with the wage freeze in place and the reductions in health care expenses.

We recognized that to ensure the long term financial health of the City, we had to begin improving the quality and style of management and we had to change the practice and operation of government if we were going to have a long term effect and reduce the cost of City government. We have begun to make those changes; here are a few highlights.

On the larger scale of governmental operations before this budget submission, the City of Springfield listed approximately thirty-one (31) different department heads - each reporting to the Mayor as the chief elected official of the City. Earlier this year, we reorganized the structure of city government. There are now eleven (11) direct reporting heads and many of the agencies that share similar missions are now grouped under one cabinet position. There is better planning and better allocation of resources, and we are developing coordinated missions in each cabinet area, with one cabinet person held responsible. All of this results in a higher level of service for the citizens.

An important case in this regard is the recent study of the Police Department by Carroll Buracker and Associates, which addresses the long-term operations of the City's Police Department. The Control Board believes that the study will provide a blueprint for public safety operations in the Police Department in the future, and that it is the cornerstone for recovery. By civilianizing a number of positions, and we hope to do this with the cooperation of our friends in the union, we would like to shift our highly trained police force back onto the streets from inside the station, while markedly lowering the long-term cost of operation for the City's Police Department. This action would not have direct effects in the 2006 budget, but it would start to bear fruit in 2007 and 2008.

We are also undertaking reorganization and review efforts in the Fire Department, the Department of Public Works, and in the numerous departments that share in the parking operations in the City. We will begin a review shortly of the Assessor's

Department and the City Clerk's Office, as well the Purchasing Department. We are also looking at an overhaul of the Management Information Systems Department, and we currently have underway improvements to our payroll services.

All of these efforts are geared toward automating services, increasing efficiency, and producing a higher level of service to the taxpayer. Most importantly, over time, by investing in existing staff through training and advancement where we can, and by making other appropriate changes, we will lower the long-term cost of services in the City while improving the levels of service enjoyed by the community. That is an essential element of the mission of the Control Board.

For both the budget and for management, it is critical that the departments and the City manage for results. Historically, the City has managed by line items and by incremental budgeting. This approach focuses only on inputs - on how much money is to be spent and how much this year's line items spending increased over last year's spending. With the FY 2006 budget, the City will begin to focus on results, not inputs. Thus, throughout this budget document you will see department missions, goals, objectives and a set of performance measures to track the attainment of each department's goals and objectives. While the performance indicators and related data are not perfect, this program budget populated with performance information starts the City on a course of management in this fashion. It will take the City two to three years to collect performance information, and more importantly, to manage by it.

The actions taken have had, and will continue to have, an impact inside city government, and more importantly, in the community at large. For City employees and for the twenty-nine (29) unions that represent employees in the City, we realize that this has been a difficult time. We understand that the City's future in large part depends not only on its finances but also on its relationship with its employees. There have been significant changes - some of which the employees have felt they have not had the impact on decision-making they once enjoyed. While we are committed to working out long term bargaining agreements with the employee unions, they must be agreements that the City can fund and fulfill.

The challenges that face both management and labor are significant. We have made substantive strides in addressing them, but our hardest work is yet to come. We endeavor each day not only to solve the financial problems, but also to resolve the outstanding employee union agreements. These are not academic decisions; they involve people's jobs, lives and families. We are actively engaged in serious talks with the principal unions, predominantly with two of the unions critical to the future success of Springfield - the teachers union and the police union. We hope to create both stability and predictability in the City's finances over the next five to seven years.

In summary, we have begun addressing the backlog of debts, we have begun to manage spending, and we have a variety of plans in place to begin managing and controlling spending for the long-term. We do not yet know what the final financial picture will be beyond this fiscal year. We have done much good work thus far, but we still have much hard work to do. In the same way that it took the City a number of years to find itself in this financial predicament, it will take a number of years and even harder work to get itself out of this situation.

*I am pleased to present the FY 2006 Provisional Recommended Budget to the Finance Control Board. The City considers this budget to be provisional until the operational review recommendations of many of the major departments are complete and implemented. We expect these recommendations and corresponding cost savings to be implemented during FY 2006 with more to come in FY 2007.*

*I would also like the reader to know that I, both professionally and personally, enjoy a close working relationship with the Mayor and his senior staff. That relationship has served us both well in meeting the challenges that we have had to face together over the past year. I would like to extend my thanks to the Chief Financial Officer Mary Tzambazakis, the Deputy City Auditor Patrick Burns, the Senior Financial Advisor Robert O'Brien, and to the entire financial staff as well as to the department heads for participating and helping to develop this document. Lastly, I extend my thanks to the Control Board's Deputy Executive Director David Panagore and to our executive assistant Ann-Marie Mahnken for their continued assistance.*

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Philip Puccia III". The signature is fluid and cursive, with a stylized "P" and "I" at the end.

*Philip Puccia III, Executive Director  
Springfield Finance Control Board*